2 December 2016

OPERATIONAL UPDATE

For three months ended 30 September 2016

MMI HOLDINGS

momentum METROPOLITAN GUARDRISK multiply

The tough economic conditions, and weak returns from equity markets, have continued to be a headwind on MMI Holdings' financial performance in the three months to 30 September 2016. Recurring premium new business was up 18% over the quarter while single premium new business was down 23% against a relatively demanding comparative for 1Q16. Overall new business volumes are down 7% on a PVNBP basis. Value of new business (on consistent basis) is up 24%, largely due to much improved new business volumes and margins from Metropolitan Retail. Core earnings are running slightly ahead of the prior year for the period. Underwriting results, with the exception of group disability experience, have improved relative to the comparative period. Expense management continues to be excellent across all business units.

While external factors are putting some pressure on reported financial results, the group continues to make good progress with its new client centric operating model. We are particularly pleased with the traction around our Financial Wellness consumer engagement strategy. Group's surplus capital position is largely unchanged from the amounts published for 30 June 2016.

Momentum Retail

Momentum Retail new business volumes are down 6% year-on-year, mainly due to a 14% decline in single premium volumes. Sales of annuity products (both life and living annuities) are ahead of prior year, but weaker sales of guaranteed endowments and wealth investment products have resulted in a relatively weak quarter for single premiums. Recurring premium new business is up 7% against 1Q16 with protection business showing 4% growth while savings and RA product sales are up 9% against the prior year. The beneficial change in new business mix towards protection products means that value of new business is unchanged at R55m for the quarter.

Rm	1Q17	1Q16	Δ %
Recurring premiums	331	309	7
Single premiums	4 129	4 812	-14
PVNBP	6 241	6 649	-6
Value of new business	55	55	0
New business margin	0.9%	0.8%	0.1%

Momentum Retail's earnings are running ahead of the prior year for the three months. Note that Momentum Retail had poor mortality experience in 1Q16 whereas 1Q17 mortality experience was in line with longer-term norms. Momentum Short-Term Insurance loss ratio for 1Q17 was 78% which is an improvement on the >80% loss ratio in 1Q16.

Metropolitan Retail

Metropolitan Retail continues to show the benefits arising from its distribution channel restructuring. Recurring premium new business is up 27% against 1Q16, with protection business showing 33% growth. Recurring premium savings product sales are up 18% for the period. Single premium new business is down 15% against the high base of the previous year. The new business mix effect is favourable for new business margins and as a result value of new business has more than doubled relative to 1Q16.

Rm	1Q17	1Q16	Δ %
Recurring premiums	327	258	27
Single premiums	294	346	-15
PVNBP	1 406	1 250	12
Value of new business	58	23	152
New business margin	4.1%	1.8%	2.3%

Metropolitan Retail's earnings are running ahead of the prior year through the first three months of the financial year. This is mainly a function of better risk underwriting experience and tight management of expenses.

Corporate and Public Sector

New business for Corporate and Public Sector segment (CPS) is down 21% relative to 1Q16. Single premium new business is down 44% with broadly similar declines in annuity and in investment product volumes. Management is confident about the pipeline and is hopeful of improved flows for rest of the year. While recurring premium new business is up 25% year-on-year, the absolute level of new business remains muted. Group risk market pricing remains competitive and this is leading to low conversion rates for recurring premium new business. New business margins are down on prior year, mainly as a result of weaker fixed cost coverage on the back of low new business volumes over the quarter. Note that Guardrisk

Life has been reclassified as non-covered business with effect from 1Q17 and comparatives have been restated accordingly.

Rm	1Q17	1Q16	Δ %
Recurring premiums	114	92	24
Single premiums	1 100	1 979	-44
PVNBP	2 197	2 775	-21
Value of new business	12	24	-50
New business margin	0.5%	0.9%	-0.4%

Earnings from CPS are below those achieved in the prior period. The full effect of losing two large health administration clients during the prior year is now reflected in revenues, while the recent rightsizing activities will only be visible in expenses from 3Q17 onwards. The business has made major strides in repricing the loss making group disability book and underwriting results are showing some improvement against late-F2016, however, underwriting losses on disability were still worse than those experienced in 1Q16. Besides the premium rate adjustments, we have also made improvements in our claims handling processes and we are also reviewing potential changes to our reinsurance strategy.

International

International's new business is up 1% year-on-year. Recurring premium new business is up 21% whereas single premium new business is down 73%. Value of new business is up around a third to R20m. Lesotho had a particularly good start to year whereas Swaziland and Namibia also contributed positively to new business. Botswana showed a decline in new business volumes. Note that we have changed our classification of covered business in International to basically only include the more developed operations (Namibia, Lesotho, Botswana, and Swaziland) as covered business. 1Q16 numbers have been restated accordingly. These changes have minimal effect on VNB as the smaller countries made zero overall contribution to new business profits.

Rm	1Q17	1Q16	Δ %
Recurring premiums	123	102	21
Single premiums	31	114	-73
PVNBP	666	657	1
Value of new business	20	15	33
New business margin	3.0%	2.3%	0.7%

Earnings at International are lower than in the previous year. Our business in Kenya continues to show underwriting losses on non-life insurance lines. We continue to take various actions in Kenya to reduce losses in that business as a matter of urgency. Profitability from our more established businesses was also somewhat lower in the period due to unfavourable underwriting experience on group risk business in Namibia. Health insurance operations in Africa are showing improvement in their claims ratios. We continue to make progress with rationalizing the Africa portfolio in order to focus on more promising markets.

Shareholder Capital

Shareholder Capital segment reflects investment income on capital held to support operations, earnings from start-up ventures not yet allocated to other segments, and certain costs not allocated to operating segments (eg certain holding company expenses). Earnings contribution from Shareholder Capital is lower than in the prior period. This is mainly because investment income is lower than in the prior period due to a combination of marginally lower average investible asset base and due to slightly lower return earned on the portfolio. The two primary new ventures being incubated within Shareholder Capital are our India health insurance and wellness initiative, and our Ayo insurance JV (in conjunction with MTN). Both of these businesses were successfully launched during November 2016.

Outlook

Operating environment remains difficult in South Africa and in most of the emerging markets where we operate. We are balancing the financial implications of the environment by managing our expenses tightly while not neglecting to invest in initiatives that we see as critical for longer term success. These include investments into distribution channels, client engagement solutions, and in certain emerging market opportunities (eg India).

The information in this operational update has not been reviewed and reported on by MMI's external auditors.